Markets in crisis
Human motivation during a global crisis

COMM 1
The first decade of the twenty-first century saw three worldwide crises that threatened the global economy. Financial markets collapsed, precipitating a massive recession; there were sudden spikes in food prices leading to widespread hunger and riots in developing countries; and the projected environmental impact of climate change left no room for doubt that urgent action was needed on carbon emissions.

ANDREW SIMMS
Each one of these independently is enough to cause a scale of upheaval the likes of which, to see some sort of comparison, we'd have to look back to the Great Depression of the 1930s. What we're worried about is that the combination of all three happening simultaneously may represent a challenge to our social and economic systems which we have never seen before, and the consequences of which are extremely hard to predict, other than to say that they will be major, they will be destructive and they will threaten the operating systems upon which we depend – our environmental operating systems and our social operating systems.

SEN
Well, any crisis is a good moment to rethink. When everything is going right then to say that it's going fine now that but it need not have, is never particularly convincing. So I think this is a great moment. One should never waste a crisis, you know, one knows how terrible a crisis is for the lives of so many people. But when all that is happening, the least one can do is to rethink about the nature of the social and economic and political organisation we happen to have. So I think the crisis at the moment we have, by the long-run one, the environment or the full-term one, hopefully, of the economic crisis or the intermittent one of the problems of food availability and food command and entitlement in the world. I think a good moment to rethink about all these questions as well as what kind of a society we want.

COMM 2
Rethinking our social, economic and political organisation poses a challenge to economists to re-examine their theories and in particular the role of the market. Two hundred years ago Adam Smith argued in The Wealth of Nations for the efficiency of markets driven by self-interest, and this idea has been central to standard economic thinking ever since. But Smith also identified the importance of institutions other than markets and of motives other than self-interest, as the Nobel Prize winning economist Professor Amartya Sen explains.

SEN
Human life is complex and we have reason to seek many different things and seek also pursuit of our own goals as well as making room for the goals of others and for the well-being of others. I think it's very important to understand the role of self-interest among other motivations. And that is one of the points that Smith emphasises in The Wealth of Nations. That people have self-interest too and, you know the famously quoted example of the baker, butcher, brewer. They have reason to want to sell their, their bread, their meat and their beer to us and we have reason to want to buy them and we shouldn't be non self-interested in that because that's the way an economy functions. But it's not the only thing we need and the baker, butcher, brewer may have a good reason to sell these things, want to sell these things but the possibility of selling these things depends on their, the confidence in each other, trust in each other, in understanding a contract and relationship. Even today when there's an

economic crisis the baker, butcher, brewers are very keen to sell their wares but it’s not so easy to sell it because the markets are collapsing. People don’t have faith in each other, particularly the credit market.
So there is a hugely important need to understand the role of, er, of the multiplicity of motivation that makes human life both fulfilled and human society and economy well performing and efficient as well as just.

COMM 3
However, the dominant strand of late twentieth-century economics, known as neoclassical economics, has tended to stress single-mindedly the merits of a free market with market participants assumed to be powerful calculating machines motivated solely by self-interest. Behavioural economists such as Richard Thaler give this assumption short shrift.

THALER
The problem with neoclassical economics is it’s based on an idealised description of the economic agent, sometimes called homo economicus, though in my book Nudge we, we shortened that to Econs; in the economics textbook you study a lot about these Econs, and you’ve never met an Econ. Econs are very, very smart; they can look through a complicated set of mortgages and pick out the best one instantly. And Econs are also quite selfish; they would never contribute to charity or leave a tip at a restaurant that they don’t plan to return to. So, since the world isn’t made up with Econs, we in behavioural economics have gone about studying humans and try to ask the question ‘what happens when humans engage in markets, which may sometimes have a few Econs in them, trying to take advantage of the humans’.

COMM 4
Thaler argues that humans left to wallow in a market better suited to, what he calls, Econs, unwittingly helped launch the financial crisis of 2007 onwards.

THALER
We can start at the very source of the problem, which is the sub-prime mortgages. I think it’s fair to say that the people who were taking out these mortgages didn’t understand the risks that they were taking. Mortgages had become much more complicated over the years; it used to be that a mortgage, all mortgages were the same, fixed rate mortgages, now they’re very complicated, and many borrowers just didn’t understand the risks that were there. I think maybe a little bit more surprisingly is the fact that the … CEOs and Boards of Directors of many of the major financial institutions that got into trouble were not aware of all the risks that their own employees were taking. This is a bit shocking.