

Paul Ormerod – 21st Century Economics

Last Thursday saw The Economist's Society welcome Dr. Paul Ormerod to UCL for what was our first academic event of the New Year.

Dr. Ormerod – educated at Oxford and Cambridge Universities and currently a visiting professor at the University of Durham – has spent much of his career researching networks, or (to quote from his website) “how people, firms and things are connected to each other, and how different ways in which they are connected have different implications”.

The talk began with the question of what it means to be rational. The idea of rationality is arguably the cornerstone of all modern economic theory or, as Dr. Ormerod himself put it, “the intellectual foundation of *all* social/ economic policy in the world today”. However the more relevant question for economists, social scientists and policy makers alike, he went on to suggest, is how relevant these widely accepted models of rationality are to the world which we live in today.

Citing examples from football hooliganism to the behavior of firms in the corporate sector in the aftermath of the financial crisis, Dr. Ormerod argued that it is very often the case that human beings' decisions are not governed by what we would perceive to be rationality. Rather, we are influenced by the presence of networks and the actions of others.

For example, a study was conducted into the successfulness of supermodels (measured by the frequency of catwalk appearances at fashion shows) in a given year and the attributes of all those included in the sample were recorded. Now, intuition would suggest that the models who had been more successful, or who had made the most catwalk appearances, would be in possession of certain attributes that would make them more desirable in the eyes of modeling agencies. However, the study showed that, on paper, there was nothing to decide between the models that had made the most appearances (the highest number was 35) and the many thousands that had made no appearances but remained on the books of modeling agencies. Therefore, the modeling agencies had not included certain models in their shows on the basis of rationality, or their desirability, but rather on the basis of those that had partaken in the greatest number of shows previously.

Another very telling example was that of the “vast proliferation of goods” that we now face upon walking into any supermarket. A recent study suggested that consumers in New York City choose between some 10 billion alternatives on a daily basis. The success of such products, Dr. Ormerod argued, has limited correlation with quality, and is rather the result of the popularity of the product itself.

Furthermore, Dr. Ormerod then went on to suggest that the herding mentality of human beings has played a significant role in the field of scientific research itself, and that the perceived current or future popularity of a given field has often led academics to direct their research toward that topic.

Another example of this is the impact on decision making of the emergence of the Internet and social media. Contrary to what was previously assumed, the widespread use of sites such as Facebook and Twitter has only increased the extent to which our decisions are based around those made by others. Whilst the constant stream of information now available to us allows us to have up-to-date information about, for example, the products that we buy (allowing us to be more informed and rational in our consumerism), we also have access to a constant account of the actions taken by others and so are further inclined to act with a lack of autonomy.

The talk was concluded with Dr. Ormerod stating his belief that within a given time frame of, say, 50-60 years the influence of networks will replace the idea of rationality as the foundation of mainstream thought in economics and elsewhere.

Personally, I believe that an irrefutable case was made for the increasing presence and significance of networks in today's world. However, rationality is by no means an obsolete concept. In the case of the arts, for example, even if the effect of networks on the consumer market is unequivocal, tastes and rationality at least have some role to play in the selection of products by critics that go on to become lapped up by the masses.

Considering the fact that acceptance of such theories would necessitate the re-training of an entire profession, the devaluation of so many qualifications and a radical rethink in economic policy by the world's governments (to name but a few consequences), I highly doubt that widespread adoption will take place in the near future.

Nevertheless, whether or not this prophecy does materialize, and the mass re-writing of university textbooks and other economic literature takes place, I think all in attendance were in agreement that they had benefited from having spent an hour listening to the insights of a very forward-thinking and enlightened individual.

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The talk began with the question of what it means to be rational, with Dr. Ormerod describing rationality as “the intellectual foundation of *all* social/economic policy in the world today”. Throughout the course of the hour he then went on to cite numerous wide-ranging examples, from football hooligans to consumerism, of how human beings act, at times, in a manner that is far from rational and more influenced by networks and the behavior of others than incentives.

The talk was concluded with Dr. Ormerod stating that he believed that theories of networks would take the place of rationality as the centerpiece of thought in economics and in other fields.

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