Uncertain Worlds: Economics, Banking & Finance

The financial crisis of 2007–08 shocked the world. Bishops had become too reliant on complex algorithms and models.

Some economic models had assumed such a crisis was impossible. Trades were being made in nanoseconds, and volatility spread very fast.

Banks thought they understood the risks, but they weren’t ready for uncertainty and unknown unknowns.

Economists had forgotten that there was an important distinction between risk, where you can predict and plan, and uncertainty...

...where you don’t know what the future holds.

Yet in the past, uncertainty was at the core of economic thinking.

Frank Knight: Risk is different from uncertainty.

Friedrich von Hayek: The pretense of knowledge we simply do not know.

John Maynard Keynes: After the crash economists need to reclaim older ideas, making uncertainty central again.

Who can they learn from?

Pastoralists are used to living with uncertainty.

They don’t try to eliminate variability — they make use of it.

This requires experimentation, improvisation, learning-by-doing, and practical problem solving.

How can bankers, finance, and economics change?

Acknowledging that surprises can happen.

Treat opaque and complex risk-based models and algorithms with caution.

Allow space for deliberation among options, when information is incomplete.

Encourage more human interactions within financial networks, and make uncertainty central to economic analysis again.